

Georgia: The Risks of Winter

I. OVERVIEW

The situation in and around Georgia's conflict areas remains unstable. Violent incidents are continuing. Shots were fired near a convoy carrying the Georgian and Polish presidents on 23 November. European Union (EU) monitors are being denied access to South Ossetia and Abkhazia. Unambitious multi-party negotiations focusing on security and internally displaced person (IDP) return have gotten off to a slow start in Geneva. For the moment, however, domestic politics are the capital's main preoccupation. President Mikheil Saakashvili's position is at least temporarily secure, but his administration is likely to be severely tested politically and economically in the winter and spring months ahead. The August 2008 war with Russia and the global financial crisis have seriously undermined Georgia's economy and the foreign investment climate. Social discontent could rise as economic conditions worsen unless the government pushes forward with economic and political change.

The medium to longer term is in any event highly unpredictable. This briefing provides a snapshot of the current situation with regard to ceasefire implementation, but also and particularly to internal developments, because attention is shifting from the conflict zones to Tbilisi. Russia's recognition on 26 August of Abkhazia and South Ossetia (condemned by Western countries) temporarily strengthened Saakashvili's position, because it kept public attention and anger directed at Moscow. However, Georgia's myriad opposition groups are ratcheting up their criticism of the president and his administration, beginning to pose pointed questions about whether the war could have been avoided and in some cases calling for Saakashvili's resignation.

The one-year commemoration of the 7 November 2007 protest broken up violently by the police brought relatively few into the streets, but a worsening economy could rapidly increase frustration over the lost war. Who might mobilise the dissatisfaction and turn it into a politically significant movement remains unclear, however, since the opposition is still badly divided by ideology and personality.

Whether the government and opposition groups can cooperate in the national interest to lessen tensions is

likewise uncertain. Much depends on whether the government implements urgently needed reforms, many of which Crisis Group recommended a year ago but on which there was virtually no movement before the August crisis and there has been only partial and tentative progress since. These include lifting both formal and informal controls over television outlets, building a truly independent judiciary, eliminating high-level corruption, guaranteeing property rights, making vital changes to the electoral code and transferring some presidential powers to the legislature and ministers. Meaningful dialogue between the government and opposition is still badly needed, with the president and his inner circle treating the opposition as legitimate participants in the democratic process.

President Saakashvili at least partially acknowledged the need when he promised a new "wave of reforms" in September though these were largely restricted to the judiciary and media and are still incomplete. He reiterated the pledge to reform as well as to combat poverty in November on the fifth anniversary of the Rose Revolution. If the government fails to follow through and indeed expand its agenda, it is likely to lose international good-will and a portion of the remarkable \$4.5 billion in post-war aid that was promised at the 22 October donors conference and which it badly needs if it is to be able to emphasise job creation and social help programs even as tax revenue declines. But the use of aid funds should be transparent, with Western assistance directly contingent upon progress in lasting political reforms and including funding for NGOs and other civil society organisations that promote political dialogue, monitor government programs and can contribute to improving the rule of law and media freedom.

Meanwhile the EU and the U.S. should continue to press Russia to abide fully by the ceasefire agreements reached by Presidents Sarkozy and Medvedev. There has been some progress, but it is spotty, and Moscow still needs to remove unauthorised troops from both South Ossetia and Abkhazia. Having taken on itself the responsibility to ensure security, Russia should also facilitate return of IDPs to their homes in the two territories and stop blocking access to EU monitors.

II. CEASEFIRE IMPLEMENTATION¹

Russia has not yet fully implemented the Sarkozy-Medvedev agreements of 15 August and 8 September 2008. They require, in addition to the ceasefire, Russian withdrawal to positions held before the conflict and deployment of international monitors. The Russian troops pulled out of almost all their self-declared “buffer zones” adjacent to South Ossetia and Abkhazia as required, by 10 October.² However, they are still in Perevi³ even though the EU Monitoring Mission (EUMM) confirmed that the village of 1,100 inhabitants is on the Georgian side of the administrative border.⁴ In clear violation of the commitment to pull back to pre-7 August positions,⁵ they remain in the Kodori Gorge area in Abkhazia and the Akhgori dis-

trict in South Ossetia, in both of which they had no earlier presence.

Citing its unilateral recognition of South Ossetia and Abkhazia as independent states, Moscow says it will maintain at least 3,700 troops each in South Ossetia and Abkhazia, the latter at its new base in Gudauta.⁶ Under the Sarkozy-Medvedev agreements, as well as the agreements regulating the Russian presence prior to August 2008, troop levels should not exceed 1,000 peacekeepers in South Ossetia and 3,000 peacekeepers in Abkhazia.⁷

The Russian and de facto South Ossetian and Abkhaz authorities meanwhile continue to deny appropriate access to international monitors. The EUMM cannot carry out activities in South Ossetia and Abkhazia.⁸ The separate mission of the Organization for Security and Co-operation in Europe (OSCE), which had been working in South Ossetia since 1992, has been blocked from returning by Russia since evacuating during the war.⁹ This violates the 8 September agreement, which

¹For background, see Crisis Group Europe Report N°195, *Russia vs Georgia: The Fallout*, 22 August 2008.

²“Russian Troops Leave Buffer Zones, But Not Georgian Separatist Regions”, RFE/RL, 10 October 2008. According to the French foreign minister, Bernard Kouchner, Russia fulfilled the agreement only partially: “Not everything has been achieved. The Russians have left most of the territory, but they remain in Akhgori and Perevi [Sachkhere rayon, adjacent to South Ossetia]”. “Kouchner: Russian Pull Out ‘Relatively Satisfactory’”, Civil Georgia, 11 October 2008.

³“The Russian forces in South Ossetia have persistently refused to dismantle this checkpoint, in spite of the fact that it is clearly located to the west of the administrative boundary line of South Ossetia”, EUMM statement quoted in “EU Monitors, Tbilisi Concerned over Situation in Perevi”, Civil Georgia, 9 November 2008. The Russians left in early November and were replaced by South Ossetian militia, but on 16 November the South Ossetians were reportedly leaving Perevi and the Russians returning. “South Ossetia Militias Pulls out of Perevi”, Civil Georgia, 16 November 2008.

⁴EUMM press release, “EUMM concerned about situation in Perevi”, 8 November 2008 and “Russian Units Return to Perevi Checkpoint”, 16 November 2008. The South Ossetian militia groups and the Russians have regularly denied EUMM monitors access to Perevi, which, the South Ossetians claim, in Soviet times was part of the Ossetian Autonomous Region.

⁵The Sarkozy-Medvedev agreements contained some ambiguities but were categorical about the obligation to withdraw to pre-7 August positions. The 15 August agreement spoke of a Russian withdrawal to positions “preceding the start of hostilities” on 7 August, and the 8 September agreement mentioned a Russian withdrawal from “zones adjoining South Ossetia and Abkhazia to the positions where they were stationed before the start of hostilities”. See “Six Point Plan Signed by President Sarkozy and President Medvedev”, Civil Georgia, 20 August 2008; “Implementation of the Plan of Russian President Dmitry Medvedev and French President Nicolas Sarkozy, August 12, 2008”, statement of the Ministry of Foreign Affairs of Russia, 8 September 2008, at www.mid.ru/brp_4.nsf/sps/EB7ADD059A673D09C32574BF00258898.

⁶Nikolai Markov, chief of the general staff, said Russia planned to maintain permanent bases in Abkhazia and station 3,700 troops in each region. “Pledges Further Support for Georgian Breakaway Region”, RIA Novosti, 15 September 2008. “Russian General Staff Gives Update on South Ossetia, Abkhazia Bases”, Itar-Tass, 21 October 2008. “Russia to Open Military Bases in Abkhazia, South Ossetia, in 2009”, RIA Novosti, 7 November 2008. There were 2,542 Commonwealth of Independent States (CIS) troops in Abkhazia on 8 September according to the leadership of the CIS peacekeeping force, as cited in the “Report of the Secretary-General on the Situation in Abkhazia, Georgia”, UNSC S/2008/631, 3 October 2008, p. 4. The CIS troops have been entirely Russian since 1994.

⁷The Russian troop presence in Abkhazia thus exceeds by 700 what was mandated in the “Agreement on a Ceasefire and Separation of Forces”, signed in Moscow in May 1994 for Abkhazia, and the “Agreement on the Principles of the Settlement of the Georgian-Ossetian Conflict”, signed in Sochi in June 1992. The Moscow agreement allows for “a regular patrol of the peace-keeping force and international observers ... in the Kodori valley”. Both the Moscow and Sochi agreements also define restricted zones where there should be no heavy weapons, a point on which both are also being violated. On 29 August Georgia declared the Moscow agreement null and void.

⁸On 4 November 2008, EUMM monitors entered the Gali district briefly. On 27 October, the EUMM participated in a meeting in Tskhinvali to define parameters for cooperation between Georgian and South Ossetian law enforcement agencies. The 8 September Sarkozy-Medvedev agreement says that at least 200 EU observers will deploy to territories adjacent to South Ossetia and Abkhazia, to complement existing international observation mechanisms.

⁹Before 7 August 2008, the OSCE Mission to Georgia had eight international observers based in Tskhinvali and carried

unambiguously stated that OSCE observers would continue to implement their pre-7 August mandate in their zone of responsibility. Some 130 unarmed UN monitors continue to operate in Abkhazia.¹⁰

Russian forces have been observed demarcating the de facto border between South Ossetia and the rest of Georgia, in violation of the spirit of the Sarkozy-Medvedev agreements, by digging trenches and setting up military encampments along it.¹¹ Critically, Russia has also failed to ensure security in the occupied territories.¹² Until 10 October, it allowed Ossetian militias to enter the “buffer zones” and attack civilians and their property.¹³ Thereafter such incursions have been sporadic. On 10 November, two Georgian police were killed and three injured by an improvised explosive device in the village of Dvani, below South Ossetia. Shots were reportedly fired at the officers after the bomb detonated.¹⁴ On 17 November two people were killed and nine injured, reportedly after an unarmed drone crashed in a village near the South Ossetian administrative border.¹⁵

EU monitors report regular shooting along the administrative border between South Ossetia and the rest of Georgia. On 23 November shots were fired in the

vicinity of the convoy of President Saakashvili and Polish President Kaczynski, who was accompanying him, when it was stopped on the South Ossetian administrative border near Akhagori.¹⁶ Other violent incidents have included a large explosion on 3 October next to the Russian military headquarters in the South Ossetian capital of Tskhinvali, which killed seven Russian troops.¹⁷

Tensions are also high in the Abkhaz- and Russian-controlled ethnic Georgian Gali district of Abkhazia.¹⁸ On 22 October, Eduard Emin-zade, the Abkhaz military intelligence chief, was killed there, followed by the fatal shooting two days later of a local Abkhaz official. The Abkhaz side accused Georgia of being behind the killings, which Georgia claimed were linked to internal, local power struggles.¹⁹ On 25 October, a local Georgian official and a civilian were killed in a mine blast in the adjacent Georgian region of Samegrelo. On 15 November a Georgian policeman was killed near the administrative border.²⁰ Sporadic exchanges of fire have been reported over the de facto border,²¹ where several bridges have been blown up in recent weeks, impeding civilian movement.²²

The EU can be congratulated for the speed with which it overcame challenging logistics to deploy 266 moni-

out a range of activities, including negotiations, rehabilitation and confidence building, with staff that travelled regularly from Tbilisi.

¹⁰As called for in the 8 September Sarkozy-Medvedev agreement which states that the UN observer mission (UNOMIG) international monitors will continue implementing their pre-7 August mandate.

¹¹The observations were on the South Ossetian eastern boundary. Crisis Group interviews, EU monitors, October 2008.

¹²Amnesty International has recommended that “as long as Russian armed forces continue to exercise effective control in South Ossetia”, the Russian government should “ensure that these forces comply with international human rights law and take appropriate measures to protect human rights”. “Civilians in the Line of Fire: the Georgia-Russia Conflict”, Amnesty International, November 2008, p. 62.

¹³“Humanitarian Consequences of the Armed Conflict in the South Caucasus. The ‘Buffer Zone’ after the Withdrawal of the Russian Troops”, Human Rights Centre “Memorial” and Demos Centre, special press release, 31 October 2008.

¹⁴The explosion was reportedly accompanied by gunfire. An EUMM patrol verified the situation, and a spokesperson said, “this attack by an improvised explosive device is an unacceptable breach of the Sarkozy-Medvedev-Agreement. It has to be thoroughly investigated on both sides and the authors duly prosecuted”. Hansjörg Haber, the head of the EU mission, added, “we repeat our call on all sides to prevent further provocations.” “EU Monitors Condemn Dvani Blast”, Civil Georgia, 10 November 2008.

¹⁵“Two Killed in Blast at S.Ossetian Border”, Civil Georgia, 17 November 2008.

¹⁶Georgian and Polish officials accused Russia of being behind the incident. “‘Shots Fired’ near Georgia Leader”, BBC News, 24 November 2008. Russian Foreign Minister Sergey Lavrov denied that any shots were fired from Russian or South Ossetian positions. “Lavrov called provocation Georgia-South Ossetia border incident”, Itar-TASS, 24 November 2008.

¹⁷Russia and South Ossetia accused Tbilisi of being behind the attack, while offering no evidence. Georgia alleged the blast was a “provocation” aimed at delaying Russian troop withdrawals and obstructing the deployment of EU monitors in the conflict zone. “Russian Investigators Suspect Georgia behind S.Ossetia Blast”, RIA Novosti, 4 October 2008; “Tbilisi accuses Moscow of ‘libellous propaganda campaign’”, Civil Georgia, 8 October 2008.

¹⁸Additionally, in Sukhumi, a car bomb exploded in front of the Abkhaz security services building, damaging it and several adjacent apartment blocks. “Report of the [UN] Secretary-General on the Situation in Abkhazia, Georgia”, op. cit., p. 4.

¹⁹“Senior Abkhaz Military Official Killed”, Civil Georgia, 23 October 2008.

²⁰“Policeman killed in Shootout at Abkhaz Border,” Civil Georgia, 15 November 2008. The EUMM immediately put out a statement condemning the killing. “EUMM condemns shooting incident near Pakhulani”, 16 November 2008.

²¹“Georgian Official Killed in Blast Near Rebel Region”, Reuters, 25 October 2008.

²²“Georgia Says Bridge Blown Up in Gali” and “Bridge Blown up on S. Ossetian Border”, Civil Georgia, 24 and 31 October 2008.

tors by early October.²³ Yet, the mission is hampered by the refusal of Russia and the de facto Abkhaz and South Ossetian authorities to allow access, its limited mandate and its inability to intervene directly when faced with violence.²⁴ The EU gave up part of its leverage on Russia, when its foreign ministers (the General Affairs and External Relations Council, GAERC) agreed on 10 November to resume negotiations without conditions on a new partnership and cooperation agreement. That decision in particular gave the impression to Russia's leadership and citizens that it was back to business as usual, and Moscow had fulfilled its ceasefire commitments.

Russia as well as the South Ossetian de facto authorities accuse the EU monitors of not doing enough to prevent Georgian ceasefire violations. Moscow has called for more observers,²⁵ even as Foreign Minister Sergey Lavrov essentially threatened the members of the EU mission, saying, "this is a dangerous game; they are playing with fire".²⁶ Responding to Russian accusations, the mission chief, Hansjorg Haber, said, "we don't get any details from the Russians. We just get general allegations".²⁷ More recently he added, "our contacts with the Russian side are at a very low level so far ... we have not been able to establish a firm contact".²⁸

The future of the fifteen-year-old UN observer mission (UNOMIG) in Abkhazia is in doubt. In early October, the Security Council approved a four-month technical extension.²⁹ However, the Abkhaz and Russia are demanding changes to its mandate and name – including that "Georgia" be dropped.³⁰ Despite this,

senior Abkhaz officials have privately told Western diplomats that they would like the UN to stay on in some capacity, so they are not left solely with Russian troops.³¹

Even though there is no direct mention of IDPs in the Sarkozy-Medvedev agreements, the two presidents agreed that their return would be a main topic during talks on 15 October in Geneva sponsored by the EU, UN and OSCE. Close to 100,000 of those displaced from the territories adjacent to South Ossetia and Abkhazia have been able to return, but widespread looting and burning by Ossetian militias has rendered many homes uninhabitable.³² Occasional Ossetian incursions into the former "buffer zone" and violent incidents have made many IDPs fearful to return permanently.³³

Some 37,600 have been unable to return to their homes since the conflict, including close to 20,000 ethnic Georgians from South Ossetia.³⁴ They are in addition to the

say Russian opposition made agreement on more EU monitors impossible "for the time being".

³¹ Crisis Group interviews, Western diplomats and UN officials, New York, October 2008.

³² About 11,500 IDPs cannot return to their homes adjacent to South Ossetia. UN Georgia, "Displacement Figures & Estimates – August 2008 Conflict", 11 November 2008.

³³ "The worst situation is observed in the so-called 'border' villages.... These villages remain within the high danger area: systematic plundering, hostage-taking, arson of houses and intimidation of the civilian population by the bandits penetrating from the territory of South Ossetia continue to take place here.... on October 17, in the village of Koshki, which is controlled by the Georgian forces, the members of the mission saw cars with Ossetian number plates near the plundered, semi-destroyed Georgian houses, and goods were being taken out of the partially burnt down school. According to eyewitnesses: the locals and journalists, – on October 16 in the village of Disevi adjacent to the village of Koshki and controlled by the Ossetian forces, several houses abandoned by their owners – ethnic Georgians – were burnt down, and their Georgian owners who had come into their gardens to gather the harvest were thrown out with threats and abuse". "Humanitarian consequences of the armed conflict in the South Caucasus. The 'buffer zone' after the withdrawal of Russian troops". Russian Human Rights Centre "Memorial" and Demos Centre, Moscow, 31 October 2008.

³⁴ Initially, 133,000 people were registered as internally displaced. Some 99,000 who lived in territories adjacent to South Ossetia have returned home. A large IDP tent camp in Gori has closed, although IDPs still remain in various public buildings there and in some smaller tent camps near South Ossetia, due to destruction of their homes. Crisis Group interview, UNHCR official, Tbilisi, October 2008; "Georgia: Massive Returns to Buffer Zone", UNHCR briefing notes, 17 October 2008, at www.unhcr.org/news/NEWS/48f862

²³ "European Union Monitoring Mission (EUMM)", Factsheet, 29 September 2008, at www.consilium.europa.eu/uedocs/cmsUpload/080929-EUMM_Factsheet_REV.pdf.

²⁴ For the full mandate, see "Council Joint Action 2008/736/CFSP on the European Monitoring Mission in Georgia", 15 September 2008. The EU observers are unarmed and vulnerable. In one instance, a team was detained briefly by an armed Ossetian militia group in the former Russian "buffer zone" south of the de facto border. Crisis Group interviews, EU monitors, Tbilisi, October 2008.

²⁵ "Russia Wants More EU Observers in Georgia", *EU Business*, 6 November 2008.

²⁶ "EUMM Observers Involved in 'Dangerous' Game", *New Europe*, 27 October 2008.

²⁷ "Chief EU Monitor: 'No Details, Only General Allegations from Russia'", *Civil Georgia*, 25 October 2008.

²⁸ "EU Mission Head Explains Monitors' Role in Georgia", *RFE/RL*, 4 November 2008.

²⁹ UNSC Resolution 1839 (2008), at www.un.org/News/Press/docs/2008/sc9470.doc.htm.

³⁰ Russia also torpedoed the planned deployment of an additional 80 OSCE monitors to Georgia, leading the OSCE to

approximately 225,000 that remain displaced from the wars in Abkhazia and South Ossetia in the early 1990s and have found no durable solutions.³⁵ The Georgian government and the international community should use the rekindling of interest in IDP issues in Georgia to do more to implement an effective IDP integration strategy to increase displaced persons' ability to fully participate in political, social and economic life.³⁶

The UN High Commissioner for Refugees (UNHCR) office reports that some 1,700 ethnic Georgians fled the Akhgori district in October, in addition to the 3,431 who left during the two previous months.³⁷ Ossetian militia harassment has continued in Akhgori while the area has been under effective Russian control and OSCE monitors denied access. Today five out of every seven ethnic Georgians who lived in the district before the conflict have fled. In other parts of South Ossetia, Russia has done nothing to assist IDP return and stood by while the looting, torching and in some cases bulldozing of Georgian villages occurred.³⁸ Given its leading political and military role in South Ossetia, it should urgently create conditions to allow return and stop more displacement.

IDP return was not discussed in Geneva in October, because the talks never got beyond modalities. The Abkhaz and South Ossetian de facto authorities insisted they be seated at the table along with the delegations from Moscow and Tbilisi. The latter refused, saying it would only meet them in separate sessions.³⁹ The Abkhaz walked out after Georgian was designated the official language of the talks. A new round of informal talks focusing on security issues and IDP return

was held on 18 November at the working group level. The sides are expected to meet again on 17 and 18 December.⁴⁰

III. INTERNAL POLITICAL DYNAMICS

Popular dissatisfaction with the conduct of the war and the continued Russian presence in South Ossetia and Abkhazia, combined with the government's authoritarian tendencies, slow democratic reform and the growing economic crisis, can provide a fertile ground for opposition movements. If the government were to revert to its heavy-handed November 2007 tactics and again use disproportionate force against peaceful demonstrators, violently close an opposition organisation or impose a state of emergency, its credibility, domestically and internationally, would be irreparably shattered. However, in the immediate term, the Saakashvili administration seems capable of retaining power, especially if the promised democratic reforms are finally implemented and dialogue with the opposition is revived. Though declining investment and a generally worsening economic environment could produce social unrest, it remains uncertain who could best mobilise the population and towards what goal, other than removal of the current government.

A. STABILITY OF THE INNER CIRCLE AND THE GOVERNMENT

President Saakashvili, who often appeared rattled and under great stress during the active hostilities in August, has demonstrated a somewhat more sombre and less aggressive public demeanour in recent weeks, even apologising for his and the government's past mistakes, including the November 2007 crackdown on peaceful protesters. Those close to him, however, say that in private he has regained his confidence and is active and engaged, consistent with his reputation for personally handling even the minutiae of government policy and decisions.⁴¹

President Saakashvili's inner circle of about a half dozen top officials wields considerable decision-making influence, and its cohesion assures stability. So far, no major cracks have emerged since the August war. Per-

c52.html; UN Georgia, "Displacement Figures & Estimates – August 2008 Conflict", 11 November 2008.

³⁵ For more on previous IDPs from Abkhazia see Crisis Group Europe Report N°176, *Abkhazia Today*, 15 September 2006; for more on those from South Ossetia, see Crisis Group Europe Briefing N°38, *Georgia-South Ossetia: Refugee Return the Path to Peace*, 19 April 2005.

³⁶ As recommended in previous Crisis Group reports, especially Crisis Group Europe Report N°176, *Abkhazia Today*, 15 September 2006. UNHCR has called for international assistance for these longstanding IDPs as well as the newly displaced. "Georgia's long standing IDPs want international help too", UNHCR, press release, 20 November 2008.

³⁷ UN Georgia, "Displacement Figures & Estimates – August 2008 Conflict", 11 November 2008. Also Crisis Group interview, UNHCR official, October 2008; "Tatiana Kasatkina: Georgian population leaves South-Ossetian Akhgori District", *Caucasian Knot*, 29 October 2008.

³⁸ Human Rights Centre "Memorial" and Demos Centre, op. cit.

³⁹ "Geneva Talks on Georgia Get Off to Rocky Start", RFE/RL, 17 October 2008.

⁴⁰ "Russia-Georgia Talks 'Productive'. Next Meeting Planned", Deutsche Presse-Agentur, 19 November 2008; and "Russia, Georgia Start Round-table Talks Post-conflict" Agence France-Presse, 19 November 2008.

⁴¹ Crisis Group observations and interviews, Tbilisi, August-November 2008.

sonal relationships rather than formal cabinet positions determine who is part of that inner circle. Among the most influential are Deputy Foreign Minister Giga Bokeria, Tbilisi Mayor Gigi Ugulava, Security Council chief Kakha Lomaia, the newly appointed justice minister, Zurab Adeishvili, the head of the parliamentary committee on security and defence, Givi Tagamadze and his deputy, Nikoloz Rurua.⁴² Interior Minister Ivane Merabishvili, who controls the police and other security forces, is perhaps the most powerful insider after the president.

The ambassador to Russia, Erosi Kitsmarishvili, did quit in August.⁴³ A wealthy businessman who used to own the influential, pro-government Rustavi-2 TV station, he later strongly criticised Saakashvili for failing to avert the war.⁴⁴ Also, Petre Mamradze, a parliamentarian from the ruling National Movement and former head of the state chancellery (essentially the highest civil servant) under both Saakashvili and his predecessor, Eduard Shevardnadze, left the party and became an independent on 11 November.⁴⁵ But in general, there have been no significant defections from the ruling elite.

Pro-government deputies from the National Movement dominate parliament, holding 119 of 134 seats.⁴⁶ Opposition parties won 30 seats in the May 2008 elections, but twelve deputies from the main nine-party opposition coalition and four from the Labour Party refused to take up their mandates, saying the elections were rigged.⁴⁷ The OSCE/ODIHR found troubling problems with counting and tabulation, mul-

multiple voting and handling of complaints by the election commissions and courts. The election campaign was considered highly polarised, with numerous instances of intimidation of opposition candidates, party activists and state employees.⁴⁸ But the decision of much of the opposition to quit parliament has hampered dialogue with the authorities and led to its constituencies being unrepresented.⁴⁹

In late October President Saakashvili replaced Prime Minister Lado Gurgenidze, a wealthy banker holding dual UK-Georgian citizenship,⁵⁰ with the little-known ambassador to Turkey, 35-year-old Grigol Mgaloblishvili, the second change of that office in one year.⁵¹ The government is not an independent power centre, but the appointment of a relatively obscure figure was a missed opportunity to create a more balanced post-war cabinet, with powers less centralised in the presidency. A few new members were added, but its orientation remains largely unchanged.⁵²

B. OPPOSITION DYNAMICS

Most opposition parties argue that President Saakashvili either acted rashly or fell into a Russian trap in South Ossetia. Initially Russia's official recognition of Abkhaz and South Ossetian independence on 26 August strengthened the president, as the opposition redirected its hostility towards Moscow. However, a self-declared moratorium by certain opposition groups on criticising the authorities lasted only a few weeks. Thereafter the groups began to speak again about absence of media freedoms, elections violations, weak checks and balances, a politically dominated judicial system, corruption, extra-legal property usurpations and growing economic disparities.⁵³

⁴²Zurab Adeishvili is a former prosecutor general and later served as the head of President Saakashvili's administration. Since the parliament adopted a law merging the prosecutor general's office with the justice ministry, he is in charge of both structures. The ruling party claimed the merger would enable parliamentary oversight of the prosecutor general's office, which has been accused of widespread abuses and intimidation of judges. See below.

⁴³In his interview with the Georgian press, Kitsmarishvili criticised the government for failure to avert the war and accused it of violating media freedoms. "Erosi Kitsmarishvili: I regret a lot", *Kviris Palitra*, issue no. 39, 29 September-5 October 2008. Government insiders say he was about to be fired. Crisis Group interviews, senior Georgian officials, October 2008.

⁴⁴Kitsmarishvili was an administration insider and seen as an architect of the 2003 Rose Revolution. He was appointed ambassador to Russia in February 2008.

⁴⁵Crisis Group telephone interview, parliamentarian Petre Mamradze, 12 November 2008.

⁴⁶There are 150 seats in the parliament, but because sixteen opposition deputies renounced their mandates, only 134 are currently occupied.

⁴⁷One seat is held by an independent.

⁴⁸"Elections Observation Mission Final Report", OSCE/Office for Democratic Institutions and Human Rights (ODIHR), 9 September 2008, available at www.osce.org/documents/odihr/2008/09/32898_en.pdf.

⁴⁹The ombudsman criticised the opposition's decision to quit parliament. Crisis Group interview, Ombudsman Sozar Subari, Tbilisi, 15 October 2008.

⁵⁰However, it was announced that Gurgenidze would remain in the team and lead a commission to stabilise the financial sector.

⁵¹Zurab Noghaideli served as prime minister from February 2005 until November 2007; Lado Gurgenidze assumed the position on 16 November 2007.

⁵²"Cabinet Wins Confidence Vote", *Civil Georgia*, 1 November 2008.

⁵³Crisis Group interviews, opposition leaders, Tbilisi, September-October 2008.

As the opposition also resumed asking if the August war could have been avoided, the former parliament speaker, Nino Burjanadze,⁵⁴ sharpened her criticism, publishing on 2 October 43 questions to the authorities about the August events.⁵⁵ She is one of the most prominent opposition leaders and on 23 November formally inaugurated a new political party – Democratic Movement-United Georgia – which she describes as “a clear-cut opposition party” and “centrist and liberal” in its orientation.⁵⁶ Only two weeks after active hostilities started in August, she flew to Washington to hold talks with State Department officials and congressional staffers.

Burjanadze, a leader along with Saakashvili of the 2003 “Rose Revolution”, quit her parliamentary post in April 2008 after disagreements over the composition of the National Movement’s election list. She is trying to gather well-known opposition figures around her in a broad anti-Saakashvili coalition and has a good ground network owing to her past political experience and her role in recent months as the leader of a quasi-political “civil movement”, the Foundation for Democracy and Development. But it is still unclear whether she can form a cohesive movement.⁵⁷ She is handicapped by her recent association with the current government, which she represented in negotiations with the opposition in the aftermath of the November 2007 violence, and the perception that members of her family enriched themselves due to their proximity to power under the government of ex-President Shevardnadze.⁵⁸

Other main opposition figures are Davit Gamkrelidze of the rightist “New Rights” party, ex-Foreign Minis-

ter Salome Zourabishvili of the “Georgia’s Way” party, former Prime Minister Zurab Noghaideli, businessman and former presidential candidate Levan Gachechladze and Republican Party leader Davit Usupashvili. The Republicans mainly bring together intellectuals who dislike deal-making and describe their party as centrist and pro-Western. Illustratively, they chose not to join the nine-party coalition that contested the 2008 parliamentary elections and were shut out of parliament, garnering less than 5 per cent of the vote.

While not part of the opposition, Georgian UN envoy Irakli Alasania is the one politician with high enough popularity ratings to rival Saakashvili.⁵⁹ He was a respected negotiator with the Abkhaz and is one of the few – or only – Georgian politicians with whom Sukhumi has said it can work effectively. The 34-year-old for now remains loyal to the government, despite speculation that he might defect. Were he to enter active politics, he might suffer from the lack of his own political party network, but he enjoys a domestic and international reputation as moderate, well spoken and cautious. A Saakashvili aide told Crisis Group that Alasania was fully in the pro-government camp, and talk he wanted to set out on his own was highly exaggerated.⁶⁰

None of the official opposition figures are, on their own, a viable threat to the current authorities. Unable so far to form a cohesive movement, their biggest success has been organisation of the 7 November 2008 rally in Tbilisi, which assembled some 10,000 supporters, far less than a year prior. The broad coalition of opposition groups which contested the May parliamentary elections was hampered by frequent infighting, which discredited the bloc. The inability to coalesce is traceable to personality conflicts between party leaders,⁶¹ as well as real ideological and tactical differences.

Even as they seek ways to cooperate, opposition leaders disagree on their main goals for the next parliamentary and presidential elections, scheduled for 2012 and January 2013 respectively. Burjanadze calls for advancing the parliamentary polls to spring 2009, as a way to

⁵⁴ Burjanadze refused shortly before the May elections to lead the National Movement list, because she and the party leaders were unable to agree on its composition. “Burjanadze: I will not seek re-election”, *Civil Georgia*, 21 April 2008.

⁵⁵ “Burjanadze’s 43 War Questions”, *Civil Georgia*, 2 October 2008.

⁵⁶ Some 1,800 supporters attended the event in Tbilisi. “Burjanadze Inaugurates Party”, *Civil Georgia*, 23 November 2008. The date, 23 November, was the five-year anniversary of the Rose Revolution of which Burjanadze was a main leader. She actually created the party a few weeks earlier. “Burjanadze Launches Party”, *Civil Georgia*, 27 October 2008. Crisis Group interviews, Nino Burjanadze, Tbilisi, 9 October 2008.

⁵⁷ Political analyst Giorgi Khutsishvili said Burjanadze lacked a clear electoral base, but this could change. “If Burjanadze manages to overcome the barrier of mistrust of the population, and explains the real reasons of her departure from the government, she will attract supporters”. Crisis Group interview, Tbilisi, 11 November 2008.

⁵⁸ Crisis Group interviews, ordinary citizens, Tbilisi, September 2008. Burjanadze’s father, Anzor, headed a state company that held a rare and lucrative licence to import flour during the anarchic 1990s.

⁵⁹ One survey showed Georgians believe Alasania played the most positive role during the conflict with Russia. *Kviris Palitra*, issue no. 35, 1-7 September 2008.

⁶⁰ Crisis Group interview, Tbilisi, September 2008.

⁶¹ More specifically, there is deep hostility between opposition groups which participate in and those which boycott parliament. For instance, parliamentarian Giorgi Tsagareishvili accused New Rights Party leader Davit Gamkrelidze of “burying the democratic opposition in Georgia”. “Opposition MP Accuses New Right’s Leader of Anti-democratic Actions”, *Caucasus Press*, 13 October 2008.

defuse tensions,⁶² but opposes a simultaneous early presidential election as potentially destabilising. Gamkrelidze, whose party regularly polls between 7 and 10 per cent of the electorate, wants Saakashvili's immediate resignation.⁶³ His party advocates a greater role for the Georgian Orthodox Church in state affairs, which some other key opposition leaders are against. Former Foreign Minister Zourabishvili and ex-presidential candidate Gachechiladze want Georgia to scrap its presidential system and become a parliamentary republic. Burjanadze objects that the political parties are not mature enough to run such a system. Constitutional removal of the president can only be accomplished by an elaborate impeachment mechanism,⁶⁴ which would require a much more substantial parliamentary presence than the opposition enjoys.

Most of the main opposition figures support a pro-Western foreign policy, including EU and NATO membership. None advocate a wholesale return to the Russian sphere of influence, though most would likely tackle relations with Moscow far more gingerly than has the Saakashvili government. But small radical elements are closer to Russia or fiercely Georgian nationalistic and linked to the Orthodox Church. The latter includes "Zviadists", who are loyal to the nationalist policies of Georgia's first president, Zviad Gamsakhurdia, and are concentrated around his widow, Manana, but are largely fragmented and disorganised. The Labour party, led by populist stalwart and fierce Saakashvili foe Shalva Natelishvili, has a solid constituency of around 10 per cent of the electorate but has never expanded its appeal beyond the largely disaffected working class.

Since independence, Georgia has not changed presidents purely through the ballot box. There is a tendency to seek change in the street rather than through institutions. So far, as most evident on 7 November 2008, the opposition has been unable to mobilise significant discontent, but, as noted, a more promising situation could develop for it if the economic situation worsens significantly, as predicted, in the coming

months, and the government fails to keep its reform promises.

C. REGIONAL STABILITY WITHIN GEORGIA

The recent war has raised concerns inside and outside the country about other possible separatist flashpoints. The two most commonly mentioned are the Armenian-populated Javakheti region in the south west and Megrelia (Samegrelo) in the west. However, the conflict does not seem to have stoked such aspirations. Megrelians have a distinct cultural identity and language⁶⁵ but are a proto-Georgian ethnos who identify with Georgia. It would be very difficult to provoke any real separatist movement among them, and speculation to this effect seems highly exaggerated. Georgian media outlets reported in September that Russian troops were disseminating leaflets in Samegrelo describing themselves as "guarantors of peace", in order to sow divisions between the region and the rest of the country.⁶⁶ But there are no reports, official or informal, of unrest there, and a recent Crisis Group visit found no sign of trouble.

Since the Soviet collapse in 1991, the small separatist movement in Samskhe-Javakheti has failed to find wide support. The nationalist groups Virk (the medieval Armenian name for Georgia) and United Javahk have helped organise demonstrations against Tbilisi policies in the past. A few of their activists were arrested in July 2008 after a small bomb went off in the region.⁶⁷ Grievances there usually involve language rights, political participation, economic issues and complaints about being "cut off" from the rest of Georgia. During the August war, the mostly native Armenian- or Russian-speaking population tuned to Russian TV for news, as most are not fluent in Georgian. The government needs to pay more attention to use of second languages in public life, education and media; promote ethnic minorities' political participation and representation; and continue infrastructure projects to integrate the region more tightly into the rest of the country.⁶⁸

⁶² "Nino Burdjanadze: Elections in Georgia Should Take Place No Later than This Spring" (in Russian), *Vremia Novostei*, no. 201, 29 October 2008.

⁶³ Gamkrelidze was quoted as calling Saakashvili's government a "criminal regime" on Georgian Public Radio, 3 November 2008.

⁶⁴ According to the constitution, one third of the total members of parliament can raise the question of impeachment of the president. The case can then be submitted to the Constitutional Court or the Supreme Court. If one of those bodies finds a basis for the proceeding, parliament can then vote to remove the president, but two thirds of the total membership must support a removal motion in two consecutive votes.

⁶⁵ Most use at home the mainly oral Megrelian language, related to Georgian but unintelligible to Georgian speakers, but are able also to speak fluent Georgian.

⁶⁶ Numerous Georgian press reports, September 2008.

⁶⁷ Up to ten people were detained and interrogated, after which some were released. "Unrest in Georgia: Armenian Community Concerned Over Recent Uprising", *Armenia Now*, 1 August 2008.

⁶⁸ These recommendations were originally made in Crisis Group Europe Report N°178, *Georgia's Armenian and Azeri Minorities*, 22 November 2006.

D. THE SECURITY FORCES

The armed forces and military infrastructure sustained heavy damage during the Russian invasion, revealing flaws in planning, supply, coordination, air defence and combat communication systems which contributed to quick demoralisation of the troops. According to some estimates, Georgia lost roughly a quarter of its 240 main battle tanks, as well as many of its small navy's vessels.⁶⁹ Davit Kezerashvili, the defence minister, said the army suffered material losses worth \$250 million and put the official military casualty toll at 270 dead and over 1,000 wounded.⁷⁰ It is hard to imagine how Georgia – even in a perfectly executed scenario – could have expected to engage the Russian military successfully for any appreciable time, given its huge disadvantage in materiel and manpower.

The government has vowed to rebuild and strengthen its military capabilities to repel any future Russian attack. It says it wants to increase the size of the forces beyond the current 26,000, enlarge the air force, acquire an integrated air-defence system that would cover the entire country and improve the military communications which Russia jammed during combat operations. According to Kezerashvili, these proposed measures would cost \$8-9 billion.⁷¹ Saakashvili's government has evidently not started questioning its militarisation strategy, begun in 2004, even though the August 2008 developments clearly showed Georgia's inability to repulse a Russian advance even after four years of exponential military budget increases and training programs.

Though late in 2007 then Prime Minister Gurgenzidze had promised a significant cut in the 2008 military budget, the parliament approved on 10 October an additional GEL 150 million (\$106 million), thus hiking overall fiscal year 2008 defence spending to a record GEL 1.545 billion. (\$1.093 billion).⁷² The new money

was earmarked for “reconstruction of infrastructure damage” and higher salaries.⁷³

The 2009 draft budget, by contrast, calls for defence spending to be cut by roughly a third, to GEL 950 million (\$575 million)⁷⁴. This is positive, given the strain large military expenditures put on the fragile economy and scarce resources to meet basic social needs. The government needs to resist the temptation to raise the military budget by large, mid-year additional appropriations, as it has done regularly since 2004. Defence officials have asked U.S. help to rebuild the army, but Pentagon officials stress that Georgia has to define its overall military doctrine before major assistance can even be considered.⁷⁵ It would be prudent for Washington also to make any new train-and-equip program contingent on further Georgian efforts to work towards defusing tensions with Russia and developing a fresh dialogue with the breakaway territories.

Soon after active hostilities ended, a number of high-ranking Georgian military officials, including the deputy chief of the joint staff, the commander of the land forces and the commander of the national guard in charge of reserve troops were removed or demoted.⁷⁶ On 4 November, the president also sacked the chief of the joint staff.⁷⁷ The defence ministry reported that the war prompted a need for amendments to the national security concept and defence planning system.

The government has released very limited information about the actual state of the army. The defence ministry has not replied to an official request from the ombudsman for detailed information about criminal cases involving servicemen. The army chief of staff, testifying before the parliamentary commission investigating the war, confirmed 170 such cases have been opened for absence without leave and 23 for desertion, including against fifteen officers. The ombudsman's office said it has received 34 appeals from servicemen for “protection” and has visited seven detained service-

⁶⁹ The lost tanks were mainly from the Gori military base. The Russians destroyed the military capacity of the coastal defence's marine forces and command centre. Up to fifteen naval vessels were destroyed, and nine Amfibia speed boats were transported to Abkhazia. Koba Liklikadze “Losses of Georgian Army still Unclear”, RFE/RL Georgian Service, 24 August 2008, at <http://tavisupleba.org/programs/military/2008/08/20080824184913.asp>.

⁷⁰ “Lessons and Losses of Georgia's Five-day War with Russia”, *Eurasia Daily Monitor*, 26 September 2008.

⁷¹ “Georgia Eager to Rebuild its Armed Forces”, *The New York Times*, 2 September 2008.

⁷² Crisis Group Europe Report N°189, *Georgia: Sliding towards Authoritarianism?*, 19 December 2008, p. 12.

⁷³ “MPs Discuss Budgetary Amendments”, *Civil Georgia*, 26 September 2008.

⁷⁴ At the time of the announcement this had a value of \$679 million but the Georgian Lari has depreciated significantly since then.

⁷⁵ Crisis Group interview, U.S. official, Washington DC, October 2008.

⁷⁶ “Some Key Army Officials Dismissed”, *Civil Georgia*, 4 September 2008.

⁷⁷ The chief of the joint staff was appointed to a border police command under the interior ministry, a position which was held by Nino Burdjanadze's husband prior to his resignation on 29 October 2008. “Georgian President Sacks Military Chief”, RFE/RL, 4 November 2008.

men charged with desertion.⁷⁸ In order to avoid further undermining of the defence forces' image and authority, the ministry needs to increase transparency and democratic accountability.

The April 2008 Bucharest summit promised Georgia NATO membership at some indefinite future time. The government still seeks that membership and specifically hopes to obtain Membership Action Plan (MAP) status at the North Atlantic Council (NAC) meeting of foreign ministers on 2-3 December 2008. This will not happen. Countries such as France and Germany that were reluctant to award MAP at Bucharest feel vindicated.⁷⁹ There has been some discussion of offering Georgia everything involved with MAP but its name, but even this is unlikely to achieve the necessary consensus. Indeed, until NATO completes a full strategic review of its aims, mission and enlargement strategy, and the situation on the ground has cooled, MAP should not be conferred.⁸⁰

IV. THE ECONOMY

After years of high growth, spearheaded by strategic reforms, the economy is suffering due to the August war and the global crisis. This will cause greater hardship in Georgia, at least in the short term, as investor, lender and consumer confidence declines, foreign direct investment (FDI) decreases, liquidity in the banking system contracts, tax and non-tax revenue slumps and social and other post-conflict expenditures increase. Tourism and agriculture, two of the pillars of the economy, are expected to lose 60 per cent and 10-15 per cent of their revenues respectively.⁸¹ The government

expects to receive significantly less revenue from privatisation, an important revenue source in the past.⁸² A joint needs assessment (JNA) carried out by the World Bank and the UN concluded that Georgia would require \$3.75 billion over three years in reconstruction and stabilisation funding.⁸³

The donors conference in Brussels on 22 October 2008 exceeded all expectations, when 38 countries and fifteen international organisations pledged more than \$4.5 billion over a three-year period – \$2 billion in direct aid, the rest via low-interest loans. Of this, \$450 million is to be granted immediately for the urgent social needs of IDPs, and \$586 million is earmarked to meet budget shortfalls. The banking sector is slated to receive \$850 million. The pledges include \$2.6 billion for “core investments” – energy, transportation and civilian infrastructure. But there has been delay in disbursement: the U.S., for example, promised \$250 million in direct budgetary support for October but this reached the Georgian treasury only on 21 November.⁸⁴ Part of the funding was also not new: out of the \$180 million pledged by the EU for 2008, for example, only \$111 million is new.

While external funding will go some way to support urgent social needs and critical investments to secure future economic growth, it will take time to restore international investor confidence in Georgia, especially while the global economic crisis contracts capital availability. FDI, which was some \$2.1 billion during the first half of 2008, is expected to drop to \$1.2 billion in the second half.⁸⁵ Kazakhstan, one of the biggest investors in Georgia but a strategic ally of Russia, abandoned several projects after the August hostilities. In September, KazMunaiGas, the state oil and gas com-

⁷⁸ Crisis Group interview, ombudsman's office, Tbilisi, 18 September 2008.

⁷⁹ They argue that the August conflict showed NATO could all too possibly find itself at war with Russia if Georgia were a member. Countries which favoured MAP at Bucharest, such as the U.S., argue that Russia would be less likely to threaten a NATO member.

⁸⁰ For more detailed discussion of this important and sensitive issue, including possible ways for the international community to provide Georgia alternative security assurance, see Crisis Group Report, *Russia vs Georgia*, op. cit. The U.S. reportedly is urging that NATO skip the MAP stage entirely and offer full membership to Georgia and Ukraine when it holds its December 2008 ministerial, but such a move is certain to encounter strong opposition”. Judy Dempsey, “U.S. starts diplomatic offensive on NATO membership for Georgia and Ukraine”, *International Herald Tribune*, 25 November 2008.

⁸¹ “Proposed supplemental credit to Georgia for the Fourth Poverty Reduction Support Operation”, *International Development Association*, p. 2.

⁸² In the first nine months of 2008, including September, the state budget received GEL 518 million (approximately \$314 million at the current rate) from privatisation. In the third quarter (July, August, September), the government was able to sell property worth only about GEL 36.5 million (approximately \$22.12 million). “The Flow of Privatisation Money Has Sharply Decreased”, *The Messenger*, 19 November 2008.

⁸³ “Georgia: Summary of Joint Needs Assessment Findings. Prepared for the Donors' Conference of October 22, 2008 in Brussels”, United Nations-World Bank, at <http://siteresources.worldbank.org/INTGEORGIA/Resources/301645-1224598099977/summary.pdf>.

⁸⁴ U.S. embassy press release, Tbilisi, 21 November 2008.

⁸⁵ “The war and the Russian occupation have affected almost all sectors of the Georgian economy ... the investment climate has drastically worsened, which is illustrated by the decreased inflow of foreign capital”, said Lado Papava, a former economy minister and analyst with the Georgian Foundation for Strategic and International Studies. Crisis Group telephone interview, 10 November 2008.

pany, cancelled plans to build a \$1 billion oil refinery in Batumi on the Black Sea.⁸⁶ The Kazakh agriculture minister cited “the current situation in Georgia” as the reason for the further decision to cancel a \$9 million grain terminal project in the port city of Poti.⁸⁷

The decrease in investor confidence has forced the Georgian National Bank to intervene heavily to support the national currency, the lari (GEL), since August. Between then and early November, it pumped some \$558 million of precious foreign exchange into the Tbilisi Interbank Currency Exchange to maintain a rate of between 1.39 and 1.45 to the U.S. dollar.⁸⁸ According to official figures, Georgia's almost \$1.9 billion reserves in April 2008 fell to \$1.27 billion at the end of October. Between 7 and 10 November, the lari was in effect devalued to 1.65 to the dollar, a rate the National Bank claims is stable and defensible.⁸⁹ Economists say it will need to continue spending sizeable reserves to defend the lari. While few expect a collapse of the currency, some predict a gradual weakening of the exchange rate.⁹⁰

Even though Georgian banks have so far weathered the shock without a failure, credit is becoming much more difficult and costly to secure. According to the National Bank,⁹¹ commercial banks lost roughly 10 per cent of their deposits in the two weeks of the war, after having already struggled with a liquidity shortage in May, following the parliamentary elections.⁹² In response to the high deposit withdrawal rate, they relied not only on National Bank support, but also restricted credit services to customers, as the latter's Financial Supervisory Agency halted new loans and credit card services between 11 and 18 August to give banks a chance to build up their cash reserves.⁹³ To help the banks cope, the International Monetary Fund (IMF) provided an eighteen-month stand-by arrange-

ment (SBA) for SDR 477.1 million (about \$750 million).⁹⁴

Local banks maintain there is no liquidity crisis. But Vakhtang Butskhrikidze, president of TBC, one of the leading Georgian commercial banks, predicts that its credit portfolio will expand by only 15 per cent in 2008, not the forecasted 40 per cent.⁹⁵ TBC staff also told Crisis Group that interest rates on consumer loans, which had ranged from 16 per cent to 36 per cent, have fluctuated since September from 26 per cent to 39 per cent, while individual loan rates have increased by 1-2 per cent.⁹⁶ According to investors who do business with it, TBC has laid off a significant number of staff.⁹⁷ Increases in the cost of loans could bankrupt many small and medium-sized companies. Reduction in lending is also likely to affect sale and consumption of non-essential goods.

Many construction projects, once a growth mainstay, have been put on hold. Real estate values, according to brokers, have fallen 10 to 25 per cent since the crisis began.⁹⁸ According to Arsi, a leading building company, its sales dropped by nearly 90 per cent immediately after the war.⁹⁹ A public relations officer at Axis, a top development company, said, “if we talk about the immediate post-war period, in September-October, our sales certainly decreased [by 45 per cent], but now the situation is recovering”.¹⁰⁰

Power generation has been uninterrupted, but future supplies are questionable. Georgia still relies on Russia for a large share of its natural gas and electricity, negotiating contracts with state-owned Gazprom month to month. With diplomatic ties cut, these supplies may be vulnerable to political manipulation at some point. Until 2008, Russia was in effect compelled to sell natural gas to Georgia, if only because it supplied this commodity to an ally, Armenia, via Georgia. However, Armenia is completing a gas pipeline with Iran to its south, thereby reducing its dependence on Georgia for

⁸⁶ “Kazakhstan Drops Oil Refinery Plans in Georgia”, Reuters, 24 September 2008.

⁸⁷ “Kazakhstan Not to Build a Grain Terminal in Poti, Agriculture Minister”, *Kazinform*, 22 September 2008. On the other hand, the Ras Al-Khaimah Emirate has maintained its multi-million dollar investments in Poti Port and the Poti Free Economic Zone, among other places in Georgia.

⁸⁸ Official data of the National Bank of Georgia as of September 2008.

⁸⁹ Civil Georgia, 10 November 2008.

⁹⁰ Crisis Group interviews, Georgian economists, Tbilisi, 10-11 November 2008.

⁹¹ Georgia's National Bank performs the traditional functions of a central bank.

⁹² “Georgia: Coping with a Credit Crunch”, EurasiaNet, 12 September 2008.

⁹³ *Ibid.* Only overdrafts and debit card services were processed.

⁹⁴ IMF, press release, 15 September 2008, at www.imf.org/external/np/sec/pr/2008/pr08208.htm. IMF funds are provided for international reserves and can not be used for budget or investment purposes.

⁹⁵ *Ibid.*

⁹⁶ Crisis Group interview, TBC loan officer, Tbilisi, November 2008.

⁹⁷ Crisis Group interviews, Tbilisi, October 2008.

⁹⁸ Crisis Group interview, Tbilisi, October 2008.

⁹⁹ “Georgia Counts Economic Cost”, Institute of War & Peace Reporting (IWPR), 17 September 2008.

¹⁰⁰ Crisis Group telephone interview, Axis public relations officer, Tbilisi, 11 November 2008.

transit.¹⁰¹ This gives Russia more leverage, although the Georgian government reached a five-year deal for natural gas from Azerbaijan on 15 November which should guarantee a stable supply and price for the foreseeable future.¹⁰² But that covers only about 55 per cent of imported natural gas needs for 2009-2010. In addition, the price is significantly higher than it was in 2007.¹⁰³ Shortly after the contract was concluded, the Georgian government announced that the cost for commercial businesses would rise between 10 and 15 per cent.¹⁰⁴

In the short to mid-term, life for average citizens is likely to become more difficult. The World Bank estimates conservatively that unemployment may increase from 13.3 per cent in 2007 to 15.1 per cent in 2010 and poverty levels from 23.6 per cent to 25.9 per cent.¹⁰⁵ Declines in growth will affect the most needy, including IDPs, the unemployed, rural dwellers and pensioners. This is the same population that was living precariously before the conflict, as there is little safety net in Georgia, and the government has favoured private social services which few can afford.

Georgian economists exclude economic and financial collapse in the short term, provided foreign aid and

loans are used wisely. In fact, the government still forecasts the economy to grow by 5-6 per cent in 2008. But in the medium term, the experts are less optimistic, due to the undermining of the investment climate.¹⁰⁶ The World Bank/UN JNA estimated that the economy will begin recovering only in the second quarter of 2009, provided that adequate budget support is received. It said this could stabilise economic growth at 4 per cent in 2009, down from earlier estimates of 8-9 per cent.¹⁰⁷

To help it in overcoming the economic challenges, the government should provide full information to a wide range of political and social groups and facilitate their participation in the definition, implementation and monitoring of donor- and government-financed economic and humanitarian programs. Civil society especially should have a role in monitoring EU funding, even though no NGOs were invited to take part in the Brussels donors conference. While this briefing does not deal with the economic situation in Abkhazia and South Ossetia, conditions there are also worsening and basic needs increasing.¹⁰⁸ In the coming months, donors, including the European Commission and the World Bank, should undertake assessment missions to the two entities, and funding should be made available to meet humanitarian, reconstruction and stabilisation needs.¹⁰⁹

¹⁰¹ The Iran-Armenia gas pipeline officially opened in March 2007 but is still not functioning. It will have a capacity of 2.5 billion cubic metres (Bcm) per year when all work is complete, which is expected in late 2008. Armenia has contracted with Iran to obtain 1.1 Bcm per year starting in 2009, in return for supplying electricity. The pipeline is expected to allow the import of Turkmenistan- as well as Iran-sourced gas. Even after gas begins flowing from Iran, Armenia will likely continue importing from Russia via Georgia, especially if its strong growth forecasts prove correct. But the pipeline potentially allows Armenia to avoid having to rely on transit in the event of future Georgian-Russian political difficulties. However, Iran has, at times, had problems adequately supplying its own market in winter; gas imports from Turkmenistan to Iran were cut in winter 2008 over a pricing dispute, so Armenia's ability to rely on imports from Iran throughout the year will remain questionable.

¹⁰² "Premier Praises Gas Deal with Azerbaijan", Rustavi 2, 15 November 2008. According to the Rustavi 2 report, citing Day.az quoting Rovnaq Abdullayev, president of SOCAR (State Oil Company of the Azerbaijan Republic), on 14 November the average cost of Azerbaijani gas supplies to Georgia will be \$527 per 1,000 cubic metres.

¹⁰³ SOCAR will provide 1.05 billion cubic metres of gas to Georgia in 2009 and 963 million cubic metres in 2010. Georgia needs at least 1.8 billion cubic metres per year. "Georgia Unveils Some Details of Azeri Gas Deal", Civil Georgia, 21 November 2008.

¹⁰⁴ "Gas Prices for Commercial Enterprises to go up 10-15%", *Caucasus Press*, Tbilisi, 17 November 2008.

¹⁰⁵ "Summary of Joint Needs Assessment Findings", op.cit., p.4.

V. THE REFORM AGENDA

In December 2007 Crisis Group recommended that the government undertake a series of political and economic reforms, including:

- ❑ engaging in a constructive dialogue with opposition parties, treating them as legitimate participants in the democratic process;
- ❑ strengthening institutional checks and balances by amending the constitution to provide greater parliamentary powers and more effective decentrali-

¹⁰⁶ Crisis Group interviews, Tbilisi, 15 October 2008.

¹⁰⁷ Growth would be expected to accelerate to 6 per cent in 2010-2011. "Summary of Joint Needs Assessment Findings", op. cit.

¹⁰⁸ See, for example, "Georgia/Russia Federation: three months later, the impact of the conflict endures", International Committee of the Red Cross (ICRC), 6 November 2008.

¹⁰⁹ The World Bank did not consider Abkhazia or South Ossetia in the JNA. A UN humanitarian mission travelled to South Ossetia in mid-September. The European Commission was a substantial donor in Abkhazia and South Ossetia until the recent conflict.

sation and making adequate resources available to opposition legislators;

- applying the rule of law without arbitrariness and ensuring independence of the judiciary; and
- investigating transparently and impartially all credible allegations of corruption, particularly at the highest levels of government, protecting property rights and reforming the privatisation process to ensure accountability.

Between the publication of these recommendations, and the August 2008 war, the government took few steps to meet these goals. Two extraordinary elections were held in an extremely polarised atmosphere. May's parliamentary elections ended with the ruling party gaining an overwhelming majority, in excess of the two thirds needed to amend the constitution. Opposition groups alleged fraud and renounced more than half their mandates, negatively affecting the work of the legislature and the prospect of strengthening institutional checks and balances.

This report does not deal with the lack of democratic governance, weakness in the rule of law, high-level corruption and inadequate government-opposition dialogue that Crisis Group detailed in December 2007.¹¹⁰ All these remain problems. However, since the war, the government has put forth some constructive reform proposals and enacted a few. To head off a potential social confrontation between the government and opposition groups, it needs to implement its promises in all these key areas and widen their scope. Yet, it remains to be seen if real and lasting institutional changes will be put in place. For example, vital modifications to the electoral code, which opposition parties have demanded and OSCE/ODIHR has backed, have not been enacted.¹¹¹ Distrust between opposition parties and the government cannot be overcome until Georgia has a fair and independent electoral system and the government starts treating the opposition as partners in the democratic process.

¹¹⁰ Crisis Group Report, *Sliding towards Authoritarianism?*, op. cit.

¹¹¹ "Elections Observation Mission Final Report", op. cit. "In March, Parliament passed amendments to the Constitution and the Unified Election Code, including controversial changes to the election system, which ignored the main opposition concerns. In making these changes, the authorities abandoned the search for consensus with the opposition on the electoral system".

A. POLITICAL REFORMS

Under pressure domestically and abroad, President Saakashvili announced several political reforms in September. NATO Secretary General Jaap de Hoop Scheffer, visiting that month, made it clear that any progress towards NATO membership would depend on real democratic change.¹¹² A top government aide told Crisis Group that Saakashvili understands fully there is little alternative to reform in the present environment.¹¹³ In an unexpected "State of the Nation" address,¹¹⁴ the president said his proposed reforms would include increased parliamentary powers over the presidency, strengthened media freedoms, restored funding for the opposition groups boycotting parliament, judicial independence and reinforcement of property rights – all key demands of opposition parties.¹¹⁵ In another speech to the nation, on the fifth anniversary of the Rose Revolution, the president emphasised that tackling poverty and unemployment would be one of his main goals.¹¹⁶

The reforms proposed for the judicial branch included putting an opposition representative on the Council of Justice, a body that oversees the judicial system, introduction of jury trials, lifetime appointment of judges and combining the prosecutor general's office with the justice ministry.¹¹⁷ These initiatives are indeed a step forward that could help increase public awareness of the judicial process and basic rights. Jury trials, also in the package, would remove verdict power from judges, which could significantly reduce interference in trials by prosecutors and government officials.¹¹⁸

But it takes time and significant resources to establish a fully functioning jury system, which will be difficult to implement nationwide. Lifetime appointment could

¹¹² "Meet Democratic Standards fully' – Scheffer to Georgia", Civil Georgia, 16 September 2008.

¹¹³ Crisis Group interview, Tbilisi, September 2008.

¹¹⁴ The president's "annual speech" was announced on the same day it took place. Typically, it is delivered in February-March and publicised at least a week in advance.

¹¹⁵ The main demands behind the November 2007 demonstrations have now essentially been backed by the president. The majority of them were also documented in a memorandum signed by the opposition parties, which can be viewed at www.civil.ge/eng/article.php?id=17008.

¹¹⁶ "The President of Georgia Mikheil Saakashvili addressed the population of Georgia", 22 November 2008, at www.president.gov.ge/?l=E&m=0&sm=1&id=2783.

¹¹⁷ Prosecutors have been singled out for interfering with judges and exerting undue influence over rulings.

¹¹⁸ Conviction rates in Georgia have been extremely high. "Countries at the Crossroads: Georgia, 2006", Freedom House, 2006.

help guarantee judges' independence, but transparent, effective monitoring mechanisms need to be in place to remove corrupt or incompetent judges. A strict code of ethics is also required. Putting the prosecutor's office under the justice ministry may increase oversight. Ultimately, ensuring independence of the judicial system is crucial for Georgia's stability, both short and long term, but all this requires political will.¹¹⁹

Property rights abuses, which continue to be widespread, can only be reduced by serious judicial reforms and an end to impunity for law enforcement or government officials and their associates. These cases have involved, for example, confiscation of businesses and real estate by law enforcement bodies that planted illegal narcotics on their rightful owners and then demanded that they give up their properties in return for immunity.¹²⁰ The public defender described a case in which a restaurant owner was threatened with jail unless he signed papers affirming he was giving his property to the state "as a gift". The restaurant owner complied, the building was demolished, and a public square was erected on the site.¹²¹

B. MEDIA REFORMS

Decrease in media freedoms has been a hallmark of the Saakashvili regime, but the president has pledged some important reforms to improve access to televised information. This is needed in a country where television dwarfs other forms of media in terms of influence and reach.¹²² Popular public discussion shows were gradually pulled off the air in the months before the August war. The nominally private but pro-government Rustavi 2 suspended the most popular, "Prime-time", over the summer, allegedly to make room for the European football championship. In Sep-

tember, the show was dropped, ostensibly due to its high production cost.¹²³

During the hostilities, the two biggest stations, Channel 1 (Georgian Public Broadcasting) and Rustavi-2, concentrated on basic military and political issues and boosting public morale. Since active hostilities ended, they have continued to cover mostly basic news on the relationship with Russia, appearances by government officials and international support for Georgia. Much coverage is devoted to the continuing presence of Russian troops in Abkhazia and South Ossetia. More sensitive issues, such as the influx of IDPs and economic problems, have been far less widely treated.

After active hostilities ended, slightly more air time was allotted to reporting on political opposition groups. While exhibiting a cautious, obvious pro-government bent, the main national TV outlets – Channels 1 and 2, as well as Rustavi-2 and Imedi (also private and pro-government) – have occasionally shown opposition leaders like Burjanadze, Gachechiladze, Gamkrelidze and others who often make critical remarks about the government or even call for the president's resignation. Kavkasia, a privately-owned station whose reach is mostly limited to Tbilisi, offers coverage of domestic politics, including long interviews with opposition figures, in a far livelier way. Its guests range from public and opposition personalities, journalists, and political analysts to the ombudsman.

As part of President Saakashvili's "new wave of reforms", the parliament adopted a law requiring Channel 1 to regularly air political talk shows reflecting diverse viewpoints. These twice-a-week broadcasts commenced in early October. Government officials are now pressing forward with plans to convert Channel 2 to an all-political format, including the broadest spectrum of both opposition and pro-government viewpoints. Channel 2 can be received in most of the country, and officials say they are working on plans to extend its signal to the entire country.¹²⁴ In November, Saakashvili was quoted as saying, "political forces, as a rule, keep telling the audience that they enjoy no right to be aired on TV. I am so tired of these statements that we gave them a channel [2] which covers the whole of

¹¹⁹"The problem of the independence of judges lies not in good or bad legislation, but rather in the reality that if prosecutors continue putting pressure on judges, lifetime appointments will not bring any viable results", Crisis Group interview, Nino Burjanadze, Tbilisi, 9 October 2008.

¹²⁰Crisis Group interview, human rights activist, Tbilisi, October 2008.

¹²¹Crisis Group interview, Ombudsman Sozar Subari, Tbilisi, 15 October 2008.

¹²²Georgian periodicals are far more wide-ranging and political than the broadcast media. A substantial number are opposition-oriented and frequently carry articles sharply critical of government policy. However, circulation is fairly low, so the print media is far less influential than television. In rural areas, circulation is especially low, partly because many editions cost as much as 2 lari (\$1.50) for a single issue, a significant expenditure for many Georgians.

¹²³The host of the program said management told her a financial crisis was the reason for the action, but she argued that the program was commercially profitable. "Inga Grigolia's 'Prime-Time' is Suspended" (in Georgian), *Rezonansi*, issue 253, 16 September 2008.

¹²⁴"Channel 2 to Become Platform for Political Forces", Media.ge, 3 November 2008.

Georgia”.¹²⁵ In October, the national licensing board, apparently cognisant of Western pressure for broadcast reforms, also reversed an earlier decision and granted a news broadcasting licence to Maestro TV, a cable-only outlet.

Though these measures are good initial steps, much more needs to be done to end interference by the authorities. While the choice of political news on television is still wider in Georgia than in almost all other former Soviet republics, government control over the broadcast media has increased substantially in recent years.

VI. CONCLUSION

Georgia is facing a critical period, made more complicated by the standoff with Russia. The war and the instability caused by the presence of Russian troops have had a negative effect on its economy. A severe downturn could lead to rising social discontent, emboldening opposition groups and leading to a protracted political standoff.

Since politics and economics are closely linked during these difficult post-war times, Tbilisi must restore a stable environment conducive to foreign investment and development if it wants to regain its pre-war levels of growth. Any political unrest would further undermine trust in the economy. The government should thus ensure that it implements a more effective social assistance strategy, carries out democratic changes in the broadcast media, creates an independent judiciary and prevents abuse of property rights. These reforms must be widened considerably and, crucially, implemented. Parliament, overwhelmingly controlled by the authorities, needs to embark at once on the serious electoral revisions recommended by the OSCE/ODIHR.

Government and opposition forces should refrain from grandstanding and empty rhetoric and engage in a genuine dialogue about the future of the country. The current authorities must understand that not only their domestic legitimacy, but also continued international political and financial support for Georgia are contingent on reforms. A failure to enact them could further undermine the economy and help create a potentially

explosive political standoff. Avoiding that contingency is a more immediate challenge to national viability than the continuing confrontation with Russia and the loss in effect, at least for many years, of South Ossetia and Abkhazia.

Tbilisi/Brussels, 26 November 2008

¹²⁵“President Saakashvili: We Give the TV Channel to Opposition Groups as a Gift”, Media.ge, 5 November 2008. Critics, like Ombudsman Sozar Subari, have criticised what they call the “top-down” nature of returning political shows to the airwaves. Crisis Group interview, Subari, Tbilisi, 15 October 2008.

APPENDIX A

MAP OF GEORGIA

Administrative map of Georgia



APPENDIX B

MAP OF SOUTH OSSETIA SHOWING VILLAGES UNDER GEORGIAN AND OSSETIAN CONTROL PRIOR TO 7 AUGUST 2008

